George Weston Limited

Annual Report 1976

Weston's

INTERIM REPORT TO SHAREHOLDERS

SIX MONTHS ENDED
JUNE 30, 1976

GEORGE WESTON LIMITED

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CONSOLIDATED FINA

SIX MONTHS END

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(in thousand

INCOME

	Three Months Ended June 30		Six Months Ended June 30	
	1976	1975(1)	1976	1975(1)
SALES(2)	$1,205,638	$1,167,392	$2,352,949	$2,279,528
OPERATING EXPENSES				
Cost of sales, selling and administrative expenses before the following items	1,157,785	1,116,353	2,270,774	2,183,450
Rentals on long-term leases net of deferred real estate income amortization	16,485	15,182	33,066	29,464
Depreciation	13,404	12,671	26,716	25,151
	1,187,674	1,144,206	2,330,556	2,238,065
OPERATING INCOME	17,964	23,186	22,393	41,463
Interest on long-term debt	6,842	4,906	11,452	10,169
Other interest expense	4,952	4,148	10,790	8,113
Corporate expenses net of investment and other income	191	1,204	2,257	1,020
	11,985	10,258	24,499	19,302
Income (loss) from continuing operations before income taxes and minority interest	5,979	12,928	(2,106)	22,161
Income taxes	(5,331)	(7,004)	(5,266)	(12,053)
	648	5,924	(7,372)	10,108
Minority interest	(300)	(727)	782	(318)
INCOME (LOSS) FROM CONTINUING OPERATIONS	348	5,197	(6,590)	9,790
LOSS FROM DISCONTINUED OPERATIONS(2)		(673)		(1,540)
	348	4,524	(6,590)	8,250
EXTRAORDINARY ITEM	370	2,541	838	2,603
NET INCOME (LOSS) FOR THE PERIOD	$ 718	$ 7,065	$ (5,752)	$ 10,853
PER COMMON SHARE				
Income (loss) from continuing operations	1¢	44¢	(65¢)	84¢
Loss from discontinued operations		(6¢)		(14¢)
Extraordinary item	3¢	23¢	8¢	23¢
Net income (loss)	4¢	61¢	(57¢)	93¢

Notes (1) Restated to conform with financial statement presentation adopted

(2) Sales of $8,822 thousand for the six months ended June 30, 1975,

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CIAL STATEMENTS

JUNE 30, 1976

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CHANGES IN FINANCIAL POSITION

	1976	1975(1)
WORKING CAPITAL DERIVED FROM		
Operations		
Net income (loss)	$ (5,752)	$ 10,853
Depreciation	26,716	25,282
Deferred income taxes	(2,078)	2,567
Amortization of goodwill arising on consolidation of subsidiaries	411	213
Amortization of deferred real estate income	(360)	(420)
Minority interest	(606)	(7)
	18,331	38,488
Book value of fixed assets disposed	10,508	5,457
Net increase (reduction) in long-term debt and other liabilities	(7,186)	780
	21,653	44,725
WORKING CAPITAL APPLIED TO		
Purchase of fixed assets	46,378	52,565
Dividends	7,297	7,286
Reductions in minority interest	4,008	27,677
Net reduction (increase) in capital stock	70	(2,019)
Other items	1,902	4,249
	59,655	89,758
DECREASE IN WORKING CAPITAL	(38,002)	(45,033)
WORKING CAPITAL at beginning of period	144,475	181,084
WORKING CAPITAL at end of period	$106,473	$136,051

76.

included in Loss from Discontinued Operations.

TO THE SHAREHOLDERS:

Sales of $1.2 billion for the second quarter of 1976 and $2.4 billion for the six months ended June 30, 1976, both reflect 3% increases over the comparable periods in 1975.

Before-tax income in this year's second quarter swung sharply from the $8.1 million loss of the first quarter to a profit of $6.0 million, which however was materially reduced by income taxes of $5.3 million. Nevertheless, income from continuing operations (after taxes and minority interest) improved substantially from the $6.9 million loss sustained in the first quarter of the year to reflect a profit of $348 thousand for the second quarter (1¢ per common share). This compares to $5.2 million in the second quarter of 1975 (44¢ per common share).

Net income for the second quarter was $718 thousand (4¢ per common share) compared to $7.1 million (61¢ per common share) in the like period of 1975. Extraordinary income of $838 thousand for the first six months of 1976 represents a reduction of taxes in subsidiaries with prior losses. For the six months to date in 1976, a net loss of $5.8 million was sustained compared to net income of $10.9 million in the corresponding 1975 period.

Divisional operating income for the second quarter and six months to date in 1976 compared to the corresponding periods in 1975 follows. Operating income is prior to interest expense, net corporate expense, investment income, U.S. and Canadian income taxes and minority interest.

	Second Quarter			Year to June 30		
	1976	1975	Increase (Decrease)	1976	1975	Increase (Decrease)
			(in millions of dollars)			
Wholesale & Retail	$ 3.3	$12.4	$(9.1)	$ 2.6	$19.6	$(17.0)
Food Processing & Other	7.6	7.0	.6	15.9	12.8	3.1
Fisheries	3.5	1.1	2.4	5.3	1.5	3.8
Forest Products	1.2	1.4	(.2)	(5.3)	5.0	(10.3)
Packaging	2.4	1.3	1.1	3.9	2.6	1.3
	$18.0	$23.2	$(5.2)	$22.4	$41.5	$(19.1)

As reflected above, all divisions recorded income at the operating level in the second quarter, representing an improving trend from the first quarter in which both the Wholesale/Retail and Forest Products divisions sustained losses at the operating level.

Year-to-date performance continues to be markedly affected by the downturns in the Forest Products and Wholesale/Retail groups. The Forest Products division has returned to a profitable base in the second quarter upon resuming operations following the five month strike which ended in the first quarter. Although it has proved difficult to recapture lost markets, the level of operations and earnings of this division should continue to improve during the balance of the year. In the Wholesale/Retail group an abatement of the price war in Chicago resulted in significantly reduced losses in National Tea and in Loblaw Companies as a whole. While performance in 1976 for this division will be further affected by increasing price competition in Canadian markets and by additional provisions for U.S. store closings, a continuation of the second quarter trend of improvement is anticipated for the balance of the year.

The Food Processing operations have remained strong, while the Fisheries and Packaging divisions are demonstrating marked earnings improvement over 1975. An unusually large herring roe turnover contributed significantly to Fisheries earnings in the second quarter.

For the Company as a whole, with the significant losses of the first quarter eliminated and more settled markets in the Forest Products and U.S. Food Distribution divisions, we anticipate a return to more normal profit levels for the balance of the year.

Toronto, Canada
August 9, 1976

W. GALEN WESTON
Chairman of the Board & Managing Director

George Weston Limited is a Canadian company with widely diversified operations in food processing, fisheries, forest products and wholesale-retail food distribution. With total consolidated sales in excess of $4.3 billion, George Weston Limited is one of the largest food manufacturers and distributors in North America.

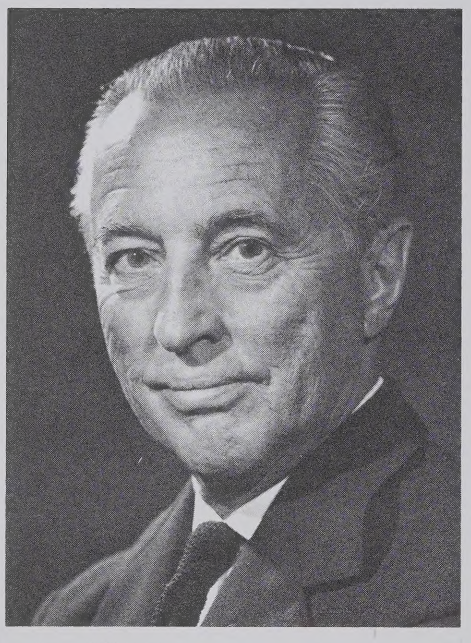
Financial Highlights

	1976	1975
Sales	**$4,344,849,000**	$4,136,901,000
Income from Continuing Operations	**15,800,000**	29,678,000
Net Income (Loss)	**(14,763,000)**	16,233,000
Working Capital Generated from Continuing Operations	**75,659,000**	89,241,000
Working Capital	**120,832,000**	144,475,000
Working Capital Ratio	**1.20 to 1**	1.25 to 1
Dividends	**12,883,000**	14,580,000
Shareholders' Equity	**206,275,000**	233,902,000
Total Assets	**1,215,158,000**	1,247,681,000
Per Common Share		
Income from Continuing Operations	**$ 1.33**	$2.59
Net Income (Loss)	**(1.44)**	1.37
Dividends	**1.065**	1.22

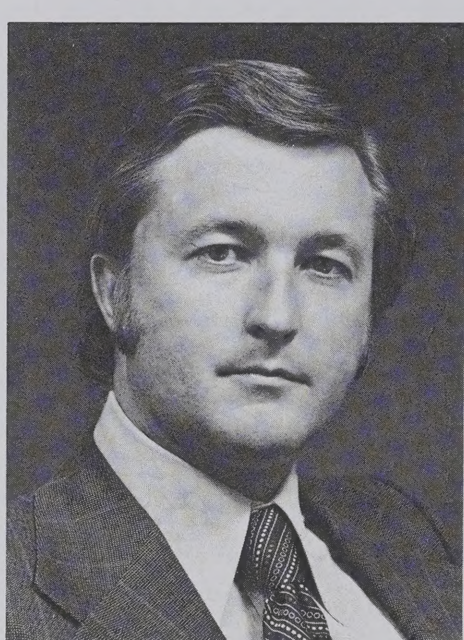
George Weston Limited
Annual Meeting, May 9, 1977 at 10:30 a.m.
Royal York Hotel, Toronto

A new supermarket of
National Tea Co. in
St. Louis, Missouri

Report to Shareholders



W. Garfield Weston



W. Galen Weston

Net results for the year were disappointing. While the continuing operations of your Company generated sales of $4.3 billion in 1976 as compared to $4.1 billion in 1975, income from these operations amounted to $15.8 million ($1.33 per common share) in 1976 compared with $29.7 million ($2.59 per common share) in 1975. Losses from discontinued operations, which stemmed from the closure during the year of a major segment of the U.S. food distribution operations, were $24.1 million as compared to $11.0 million in 1975 restated on a similar basis. Net extraordinary losses were $6.4 million in 1976 and $2.5 million in 1975. Net loss for the year was $14.8 million ($1.44 per common share) as compared to net income of $16.2 million ($1.37 per common share) in 1975.

The Wholesale and Retail division, while showing improvement in sales from continuing operations, suffered from intense price competition which brought food price levels well below those required to offset the continuing increases in wage and product costs. In addition, the heavy one-time cost associated with the major U.S. closures further depressed results. Several other sectors of the Weston operations were adversely affected by a generally unfavorable economic climate as well as by other specific factors. The five month strike which ended in March, 1976 impacted severely on the earnings of the Forest Products division, particularly in the first

quarter, and required strong and costly effort to regain customer confidence and sales volume. The international and domestic markets for both pulp and paper remained soft throughout the year. The Fisheries division recovered from a weak performance in 1975 to a modest net income. Markets remained firm for both canned and frozen products and salmon landings were well above last year. In the Food Processing area, improvements in the mix of sales and co-ordination of operations contributed to a significantly better performance. A summary of operating income from the divisions follows. Operating income is before interest expense, income taxes and minority interests.

	1976	1975
	(in millions of dollars)	
Wholesale and Retail	$42.4	$68.0
Forest Products and Packaging	5.5	10.5
Fisheries	11.8	6.4
Food Processing	30.9	26.6
	$90.6	$111.5

It is reassuring to note that the net loss for the year results from the losses and extraordinary costs associated with the closure of unprofitable operations and that in spite of such losses there has been no deterioration of our underlying financial position. Operations discontinued in 1976 are comprised of the Chicago market of National Tea Co. and the Los Angeles, San Francisco and Syracuse markets of Loblaw Inc. — some 250 stores with support facilities — cutting the former U.S. operations almost in half. Sales from these operations in 1976 of $709 million ($924 million in 1975) resulted in a loss to the Company of $24.1 million. While in the short term, this action was extremely costly, in the longer term the discontinuance of these operations eliminates further losses and enables the Company to concentrate its financial and managerial resources on its present profitable operations.

During the year your Company subscribed for 7,264,104 Class A and Class B shares of Loblaw Companies Limited at an aggregate price of $29 million and the directors of Loblaw Companies Limited approved a reduction in capital of $49.6 million to be applied against the loss from closure of the Chicago division of like amount. The retained earnings of Loblaw Companies Limited are thereby maintained at a positive level, so that the resumption of dividends may be considered as warranted by future earnings. In addition to the closures in Loblaw, a number of other operations were sold during the year or shortly thereafter, including our investment in Somerville Industries Limited. The net gains from these divestitures offset substantially the losses from discontinued operations and provided a considerable input of cash both before and subsequent to year-end.

Operations have begun in 1977 at a significantly improved level of performance and we are not obliged to contend with the debilitating losses from operations now discontinued. Our indebtedness and attendant interest costs have been reduced during the year and subsequently, by application of cash obtained from the various divestitures of 1976. We expect that the markets in all sectors of our business will continue to be strongly competitive and, while inflation has been restrained somewhat, there is a wide degree of uncertainty as to the timing and effect of the relaxation or removal of government-enforced price and wage controls. I believe, however, that because of the actions taken in 1976, your Company is now in a fundamentally better position to react positively to the strong competition in the market-place and to the uncertainties in the economic outlook. A more balanced and improved profit performance can be expected in 1977.

W. Garfield Weston
Vice Chairman of the Board
and President

W. Galen Weston
Chairman of the Board and
Managing Director

Review of Operations

Sales

Net sales of continuing operations in 1976 were $4,345 million as compared to $4,137 million in 1975 restated on a similar basis. Approximately 250 stores in the Chicago division of National Tea Co. and in the Los Angeles, San Francisco and Syracuse operations of Loblaw Inc. together with support facilities were closed in the latter part of the year. Sales of these discontinued operations were $709 million in 1976 and $924 million in 1975. There were modest increases in sales of continuing operations in all divisions. The increases resulted primarily from internal growth and to a much lesser degree than in earlier years from price inflation in certain specific products. Comparative divisional sales are shown in the division reports.

Earnings

Income from continuing operations declined from $29.7 million in 1975 to $15.8 million in 1976 ($2.59 to $1.33 per common share). Loss from discontinued operations amounted to $24.1 million in 1976 as compared to $11.0 million in 1975. A comparative statement of these losses is given in note 3 to the financial statements herein.

Extraordinary items are shown in detail in note 4 to the financial statements. The net extraordinary loss of $6.4 million ($2.5 million loss in 1975) is comprised of losses on closure of segments of the National Tea Co. and Loblaw Inc. operations of $19.2 million and attendant loss on disposal of related facilities of $14.5 million balanced by gains of $18.6 million on sales of investments in certain subsidiaries and income tax reductions of $1.9 million, less minority interest in these transactions of $6.8 million.

Consolidated net loss for the year therefore amounted to $14.8 million as compared to net income of $16.2 million in 1975 — on a per share basis ($1.44) versus $1.37.

Dividends

Dividends declared in 1976 on the common shares amounted to $11.7 million as compared to $13.4 million in 1975. The quarterly rate of 30.5¢ per share was paid throughout the year while the rate of dividend declared payable on January 1, 1977 was reduced to 15¢ per share. The regular rates of dividends were maintained on all series of preferred shares.

Working Capital

Working capital at year-end was $120.8 million. This represented a decrease of $23.6 million in 1976 as compared with a $36.6 million decrease in 1975. Funds were provided from: continuing operations $75.7 million; proceeds from sale of fixed assets and investments in subsidiaries (net of their working capital) $95.0 million. Funds were applied to: net reduction of long-term debt and other liabilities $28.7 million; purchase of fixed assets $100.2 million; closure and discontinuance of operations $41.5 million and dividends (including those paid to minorities of subsidiaries) $17.0 million.

Capital Expenditures

Additions to fixed assets in the year amounted to $100.2 million compared to $97.3 million in 1975. Of this total, $55 million was spent in the wholesale and retail area for new stores, additions and remodelling, warehouse capacity and mobile equipment. In the Forest Products division rebuilding of a tissue paper machine at Hull, Quebec was completed following the year-end at a total cost of approximately $10.9 million, of which $5.7 million was expended in 1976. A further $5.4 million was expended in completing the first stage of a new highly productive and pollution-free bleaching process at the pulp mill in Espanola, Ontario and $2.5 million of a total of $5.3 million provided to construct the first phase of a dimensional spruce sawmill at Davidson, Quebec. The new bakery at Vancouver was completed late in the year at a total cost of $7.1 million, of which $2.3 million was expended in 1976. Depreciation written against continuing operations in the year was $45.9 million as compared to $43.9 million in 1975.

Long-Term Debt and Shareholders' Equity

Long-term debt excluding current maturities at year-end amounted to $232.7 million as compared to $270.3 million the previous year — a reduction of $37.6 million. Current maturities increased moderately from $13.0 million to $14.7 million. A mortgage debt of $21.0 million was reclassified as current mortgage liability relating to property which was agreed to be sold subsequent to year-end. There were no public financings during the year. Shareholders' equity was $206.3 million at year-end 1976 compared to $233.9 million in 1975.

Corporate Changes

The discontinuance of major segments of the operations of National Tea Co. and Loblaw Inc. is described elsewhere. In addition, a number of divestitures of wholly-owned subsidiaries took place effectively within the 1976 year. Nabob Foods Limited, a subsidiary of Kelly, Douglas & Company, Limited engaged in the manufacture of food products, McLarens Foods Limited, a direct subsidiary of the Company and processor principally of spices and pickles, Snyder & Sons Limited, Prince Edward Food Products and Culverhouse Foods, subsidiaries of Niagara Food Products, Limited, in the canning business, and Somerville Industries Limited, a subsidiary of the Company in the packaging industry and having interests in plastic and other products, were divested during the year. In aggregate these subsidiaries contributed $1.3 million to income from continuing operations in 1976.

During the year, Westfair Foods Ltd., a subsidiary of Kelly, Douglas & Company, Limited acquired through subsidiaries the Denver, Colorado operations and facilities of National Tea Co. and Kelly, Douglas increased its interest in Foremost Foods Ltd. from 60% to 100% in March, 1976.

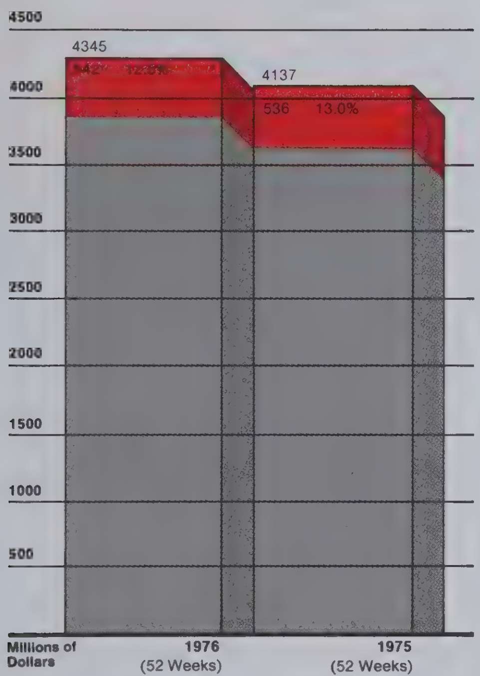
In November 1976 the Company subscribed for additional Class A and Class B shares of Loblaw Companies Limited, thus increasing the Company's ownership from 83.3% to 87.1%. The directors of Loblaw Companies Limited and of Loblaws Limited authorized reductions in issued capital of each company, subject to the approval of the respective shareholders, in recognition of the write-off by National Tea Co. resulting from closure of its Chicago operations.

Subsequent Events

At the beginning of 1977, Loblaws Limited acquired the operating assets of Atlantic Wholesalers, Limited and is continuing the operation under the name Atlantic Wholesalers and Kelly, Douglas disposed of its catering subsidiary, Cal-Van, Canus Catering Services Ltd. Offers were also announced for the minority preference shares of National Grocers Company, Limited and common shares of McCarthy Milling Company, Limited, and agreement was reached for the sale of the Chicago distribution centre formerly operated by National Tea Co. Proceeds from a new U.S. $12,000,000 ten year term loan as well as funds received after year-end from prior divestitures were used to retire additional long and short term debt early in the year.


McCormicks
vanilla cremes
cookies
NET WT 12.3 OZ 350g

Food Processing



Division & Consolidated Sales

Sales of processed food products increased from $536 million to $542 million in 1976, representing 12.5% of consolidated net sales.

Bakery operations for the year resulted in a marginal increase in sales to $155 million but a significant decrease in earnings. The reduction in earnings was attributable very largely to increases in labor costs which could not be compensated by an increase in prices. Markets were strongly competitive in most parts of Canada throughout the year. The new bakery in Vancouver came into production late in the year and after the initial start-up period is expected to provide a much more efficient operation.

Sales of the biscuit operations at $144 million declined slightly but earnings were improved — particularly in the United States. The lower volume is due largely to elimination of high cost short run varieties. Following a successful review and alignment of the United States operations, attention is being focussed on the integration of production, marketing and distribution functions in Canada. An extensive program of updating manufacturing facilities is also in progress in both market areas.

Chocolate and dairy operations reflect a slight increase in sales to $109 million but earnings declined approximately 10%. While Neilson maintained its leading position in the confectionery and ice cream markets, sales were adversely affected by the continued consumer resistance to the necessarily higher prices and an unusually cool summer for ice cream products. Several new grocery products, including hot chocolate, drinking chocolate and soft drink mix crystals were introduced with encouraging results. A new shell moulding line was installed to improve the efficiency of a number of chocolate bar products such as Treasures, Liquid Four and Cherries. The dairy operations experienced a decline in both sales and earnings. The drop in earnings was caused primarily by increased labor cost not compensated by price increase. An improved performance is presently indicated for 1977.

The third year of the sugar refining operations was one of significant progress. Physical volume increased substantially though sales dollars decreased due to a material reduction in both raw and refined sugar prices. Output of the refinery improved steadily in both volume and efficiency during the year. Profitability improved and it is expected that all areas of its operations and resultant profit performance will continue to improve in 1977. The Bowes food specialty group continued the very satisfactory level of performance of preceding years.

Principal Subsidiaries

Bakery
- Weston Bakeries Limited
  - Lane's Bakeries Limited
- Stuart Limited
- Wittich's Bread Limited
- Soo Line Mills (1969) Limited
- McCarthy Milling Company, Limited

Biscuit
- InterBake Foods Limited
- Weston Foods Limited
- McCormick's Limited
  - Imperial Cone Company
  - Bates Packaging Services Limited
- Paulin Chambers Co. Ltd.
- Marven's Limited
- Kambly (of Switzerland) Canada Limited
- Interbake Foods Inc. (U.S.) and divisions
  - Richmond, Va.
  - Tacoma, Wash.
  - North Sioux City, S.D.
  - Battle Creek, Mich.
  - Dairy Division, Chicago, Ill.

Chocolate & Dairy
- William Neilson Co. Limited
- Donlands Dairy, Limited
- Clark Dairy Limited

Food Specialties
- Bowes Company, Limited
  - Chocolate Products Limited
  - McNair Products Company, Limited
  - Rose & Laflamme Limited
  - Saxonia Fruit Preserving Company, Limited
  - Watt & Scott Limited
- Westcane Sugar Limited
- Niagara Food Products, Limited

Facilities

Bakery
Bakeries in Vancouver, Calgary, Edmonton, Regina, Winnipeg, Essex, Kitchener, Toronto, Sudbury, Kingston, Kirkland Lake, Montreal and Moncton.
Flour mills in Winnipeg and Streetsville, Ontario.
Warehouses in principal cities in Canada.

Biscuit
Biscuit and confectionery plants in Winnipeg, Toronto, London, Longueuil, Moncton in Canada and Richmond, Va., Tacoma, Wash., North Sioux City, South Dakota and Battle Creek, Mich. in the United States. Sales branches and distributors in principal cities of Canada and United States.

Chocolate & Dairy
Chocolate production facilities in Toronto. Ice cream plant in Toronto and dairies in Beachville, Guelph, Ottawa and Toronto, Ontario.

Food Specialties
Manufacturing and processing plants in Toronto, Hamilton, Montreal, and Colborne, Ontario.
Warehouses in principal Canadian cities.
Refinery and warehouse in Oshawa, Ontario.

Products & Services

Bakery
Produces a wide variety of bread, rolls, cakes and other bakery products under national brand and private label for distribution to food stores and catering outlets in all provinces of Canada.
Produces flour and mill feeds for internal use and domestic and export markets.

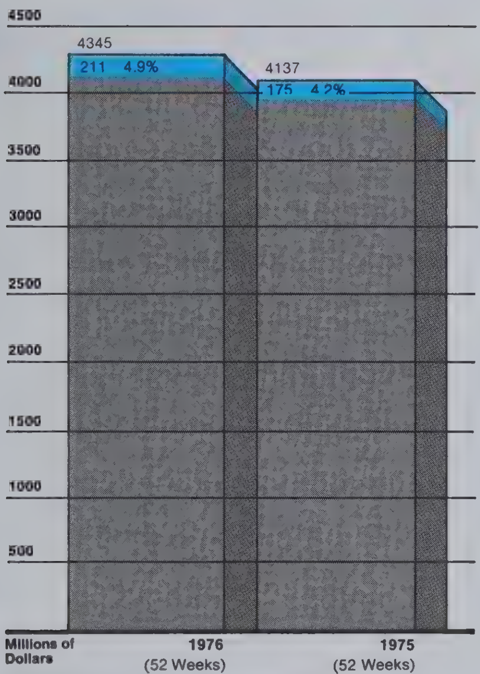
Biscuit
Manufactures and distributes a broad range of sweet biscuits, crackers, ice cream cones, confections and candies throughout Canada and in the United States.

Chocolate & Dairy
Produces and distributes throughout Canada a wide range of chocolate bars and boxed chocolates, chocolate coatings, cocoa and specialty items. Also manufactures bulk and packaged ice cream and frozen novelties, and processes milk and associated products.

Food Specialties
Manufactures a variety of ingredients and products for the baking, confection, dairy and fountain industries.
Packages and distributes a full line of dried and glace fruits, nuts, cereals, fruits, vegetables and health foods.
Produces liquid bulk and granulated bulk and packaged white sugars.


RED PACIFIC
SOCKEYE SAL
CLOVER LEAF
PRODUCT OF CANADA
SALT ADDED
RED PACIFIC
SOCKEYE SAL
CLOVER

Fisheries



Division & Consolidated Sales

Sales for this division in 1976 increased 20.5% to $211 million (4.9% of consolidated net sales). Most of this increase occurred in British Columbia Packers Limited and reflected an increase in landings of herring and a substantial recovery in salmon production which, in 1975, was the lowest in recent history. Net income from these operations recovered accordingly. Connors Bros., Limited sales and net income in 1976 remained at approximately the same level as in the previous year.

British Columbia Packers Limited sales increased to $177 million resulting in a net income of $3,589,000. As anticipated, 1976 industry salmon landings of 115 million pounds were below average, but were well above the 68 million pounds landed in 1975. For the first time in many years there were no strikes in this sector of the industry and the benefits of uninterrupted operations were apparent to all participants. Markets remained firm for both canned and frozen products. British Columbia industry landings of roe herring in 1976 were 87,000 tons compared with 58,000 tons in 1975. Stocks of groundfish available to the Canadian industry continued to decline in 1976, and without Government measures giving financial assistance to the fishery sector, operations would have been totally uneconomic. The company's United States subsidiaries have, in total, continued to show improved results over 1975. The salmon run to Bristol Bay in Alaska developed as anticipated and the canning operation was once again successful. The rapeseed crushing mill at Lloydminster, Alberta, in which British Columbia Packers Limited holds a one-third interest, experienced a difficult year due to abnormally low market prices but improvement is already apparent in 1977. The company is also providing management for, and has taken a 30% interest in Mar Fishing Company, Inc. which has been formed to explore the tuna fishery in waters adjacent to the Philippine Islands.

Sales of Connors Bros., Limited reached $34 million, a slight increase over the previous year. Net income however, was somewhat reduced, due in large measure to adverse foreign exchange and intense price competition in world markets. The new cannery at Black's Harbour in New Brunswick, which was completed in 1975, operated successfully. In December 1976, Connors Bros., Limited acquired two operating plants from British Columbia Packers Limited. It is anticipated that these two plants can be more effectively integrated with Connors' other operations in this region, to the benefit of the group.

Principal Subsidiaries

British Columbia Packers Limited
Rupert's Certi-Fresh Foods, Inc.
Connors Bros., Limited
H. W. Welch, Limited
Lewis Connors & Sons Limited

Facilities

British Columbia Packers Limited has extensive canning, freezing and processing facilities on both coasts of Canada and subsidiary operations in Alaska, Washington, Illinois, California and Texas. Connors has similar facilities in the Bay of Fundy area including a can manufacturing plant.

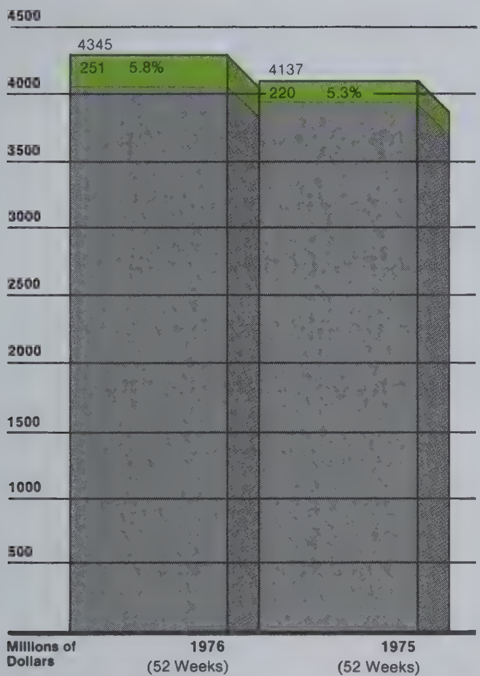
Products & Services

British Columbia Packers group is a major supplier of Pacific coast salmon and a wide variety of fresh, frozen, canned and prepared seafoods, as well as fish meal and oil. Connors group is Canada's leading packer of sardines and a large processor of Atlantic Ocean seafoods and fish products.

The long-term outlook is for increased supplies of salmon and herring in British Columbia, and for herring and groundfish on the Atlantic Coast. The newly-declared 200-mile limit will give Canada a measure of control over its fishing zones; however, a number of important issues with the United States still must be resolved — including establishing boundaries for the 200-mile zones and agreements covering reciprocal fishing and salmon interceptions. A Federal Government program designed to significantly increase the average runs of salmon in British Columbia over a number of years has been planned, and implementation of the first phase will begin in 1977. Average landings of salmon and herring are anticipated and markets for the company's products are expected to remain firm during 1977.


the
paper
sponge
white Swan
2 ply towels

Forest Products and Packaging



Division & Consolidated Sales

Division sales increased approximately 14% to $251 million in 1976 (5.8% of consolidated net sales). The sales of forest products increased but earnings were severely reduced. Packaging showed improvement in both sales and earnings.

Forest product sales increased from $158 million to $182 million in 1976. The five month strike at the pulp and paper mills at Espanola and Hull which ended in early March 1976 caused not only a very substantial direct loss but also seriously dislocated contractual arrangements with major customers. Only by the very strong effort of the marketing personnel was customer confidence and a substantial portion of sales volume regained. While pulp prices were generally more favorable, prices of fine and specialty papers were extremely competitive in both the U.S. and Canadian markets.

These latter markets were supplied by American mills during the strike and efforts to regain them at reasonable prices were greatly hampered by the soft American market and the high value of the Canadian dollar during the year. Notwithstanding seven day operation throughout the year, the Eastern Fine Paper operation at Brewer, Maine, had a difficult year due to severely competitive pricing in the U.S. market.

The wood product operations with mills at Nairn Centre and Timmins, Ontario and Davidson, Quebec were adversely affected by the pulp and paper mill strike and by the generally poor market conditions. The need to stockpile chips during the strike greatly increased the handling costs. The lumber market improved slightly during the year but not sufficiently to produce a satisfactory profit. With an increase in housing starts projected in the United States and a decrease anticipated in the domestic market, average price and volume should improve in 1977 with consequent improvement in earnings.

The strike previously referred to and general unrest in the construction trades in Quebec delayed the capital programs scheduled for completion in 1976. The improvements to No. 3 Tissue machine at Hull designed to improve both quality and production have, however, now been completed. Further, the first stage of oxygen bleaching of pulp at Espanola has now been completed. This new process will reduce pollution significantly and also provide a material reduction in bleaching costs. Production in the new sawmill at Davidson, Quebec will commence during the second quarter of 1977 and will expand and improve the profitability of the lumber operations.

Consolidated net sales of Somerville Industries Limited increased by 12.7% to $69.4 million in 1976, and earnings showed a substantial improvement. However, it should be remembered that the 1975 performance was adversely affected by lengthy strikes affecting the packaging and the games product operations and by generally unfavorable market conditions. In consequence, much of the sales and earnings increase reflected a return to a more normal growth pattern. As announced at the end of the year, the Company sold all of the common shares of Somerville Industries Limited and since then has also disposed of the flexible packaging operation of Eddy Forest. These moves take us out of an area of potential conflict with suppliers to other group operations and allow us to concentrate resources in areas of maximum potential growth.

Any continuation of the recent strengthening of the U.S. economy and the reduction in value of the Canadian dollar will be significant factors in the return of the forest products division to a more normal earnings position in 1977.

Principal Subsidiaries

Eddy Paper Company Limited
E. B. Eddy Forest Products Ltd.
Rudolph McChesney Lumber Company Limited
Eastern Fine Paper, Inc. (U.S.)

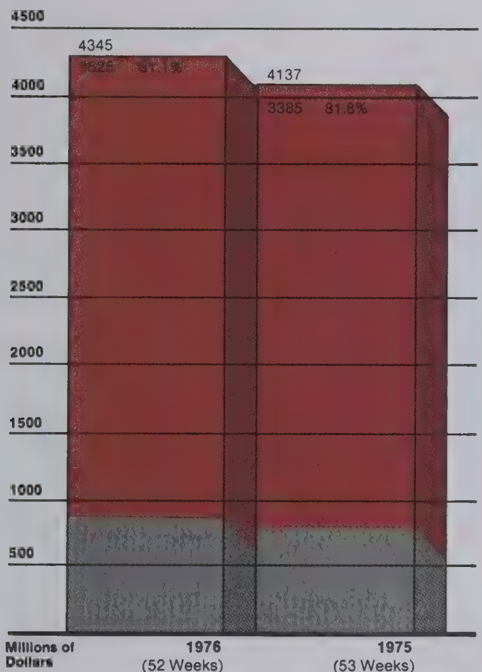
Facilities

Extensive timber limits and wood harvesting facilities in Ontario and Quebec. Pulp mill in Espanola, Ontario and paper mills in Espanola and in Hull, Quebec and Brewer, Maine. Sawmills in Davidson, Quebec and Nairn Centre and Timmins, Ontario.

Products & Services

Manufactures and distributes fine, specialty and kraft papers for printing, converting, packaging and wrapping; paper-board, kraft pulps and lumber; tissue, other household and industrial paper products.

Wholesale and Retail



Division & Consolidated Sales

All food distribution operations are now carried out by Loblaw Companies Limited, an 87.1% owned subsidiary. Net wholesale and retail sales for 1976, excluding $709 million in respect of discontinued operations, amounted to $3,525 million or 81.1% of consolidated net sales. 1975 sales, restated to exclude $924 million of sales of presently discontinued operations, amounted to $3,385 million — this reflects an increase of $140 million in sales from continuing operations. Net income from continuing operations attributable to Weston's from Loblaw Companies Limited was $4.2 million in 1976.

Net sales of the Canadian operations improved by $68 million to $2,319 million. While market share generally was maintained, food prices did not keep pace with the general increase in price level during the year and in consequence the heavy increases in payroll, energy and other costs impacted strongly on available margins and resulted in a significant decrease in income from continuing operations.

At Kelly, Douglas, both sales and earnings showed improvement. Sales increased $125 million (including $66 million resulting from acquisition of Westfair during 1975) to $939 million, while income before extraordinary items rose from $7.9 million in 1975 to $8.2 million in 1976. Extraordinary income of $5.1 million (primarily the gain on sale of Nabob Foods) brought the 1976 net income to $13.3 million of which $9.1 million is attributable to Weston. In March 1976, Kelly, Douglas acquired indirectly through subsidiaries from National Tea Co. the wholesale distribution facilities and certain real estate in Denver, Colorado and on January 1, 1977 acquired the 33 National Tea stores in the area. Operating results from Denver in 1976 were favorable and extensive expansion is planned for 1977. Early in 1977, the catering operations of Kelly, Douglas were sold. All of these acquisitions and disposals will enable Kelly, Douglas to concentrate more fully on its major function — the distribution of food products.

The food retailing sales of Loblaws and Zehr's in Ontario and Dionne in Quebec were improved in 1976 but, due to intense price competition, earnings were reduced. Food wholesaling in Ontario through National Grocers continued to enjoy increased volume although net income was somewhat reduced. Atlantic Wholesalers in the Maritimes maintained their longstanding record of steady gains in sales and earnings. The Tamblyn chain of drug stores and the Sayvette department stores performed better than last year but remained in a loss position. During the year Loblaw acquired the minority interest in the Class A shares of Atlantic Wholesalers, Limited and at the end of the year, purchased the operating assets. The operation is being continued under the name of Atlantic Wholesalers.

Net sales of the U.S. continuing operations increased from $1,134 million in 1975 to $1,206 million in 1976 (27% of consolidated net sales in both years). These operations include the supermarkets of National Tea Co. in the states of Indiana, Louisiana, Minnesota and Missouri and the wholesale and retail outlets of Loblaw Inc. in New York State and Pennsylvania. During the year the Chicago area stores of National Tea Co. and the Los Angeles, San Francisco and Syracuse stores of Loblaw Inc. were closed — approximately 250 stores in all — in order to stem the heavy losses being incurred and to concentrate the Company's financial resources on the profitable operations. During 1976, these stores lost some $32 million on sales of $709 million ($924 million in 1975). Your Company's share of the 1976 loss from discontinued operations was $24.1 million. In addition, Weston's share of the extraordinary losses of some $34 million associated with closing those operations amounted to $25 million. However, cumulative losses in National Tea Co. of some $90 million will reduce or eliminate income taxes on its future earnings for some time to come and the cash generated from the disposals will also have a positive impact. In 1976 substantial sums were expended in renovation, extension and new construction including ancillary equipment and plans are being implemented in 1977 to further this program in the continuing market areas.

Principal Subsidiaries

Canadian Operations

Loblaw Companies Limited
- Loblaws Limited
  - Atlantic Wholesalers
  - Intersave Buying & Merchandising Services Division
  - National Grocers Division
  - National Grocers Company, Limited
  - Zehrmart Limited
    - Sayvette Division
    - Zehrs Markets Division
  - G. Tamblyn, Limited
  - Dionne Limited
- Kelly, Douglas & Company, Limited
  - Super Valu Stores (B.C.) Division
  - Isaacs Pharmacy Ltd.
  - Dickson's Food Services Ltd.
  - Foremost Foods Ltd.
  - W. H. Malkin Ltd.
  - Westfair Foods Ltd.
    - Western Grocers
    - Dominion Fruit
    - O.K. Economy Stores
    - Shelly Western
    - Econo-Mart
    - Loblaw West
    - Western Grocers, Inc. (U.S.)

United States Operations

National Tea Co.

National Food Distributors Inc.
- Loblaw Inc.
- Peter J. Schmitt Co., Inc.

Facilities

Canadian Operations

Warehouses in strategic centres with about 380 supermarkets and 165 retail drug stores across Canada, 5 department stores in Ontario.

United States Operations

Approximately 300 supermarkets located primarily in central United States with warehouses in major centres.

Products & Services

Canadian Operations

Wholesale and retail marketing of food, drug and other products throughout Canada, department store operations in Ontario.

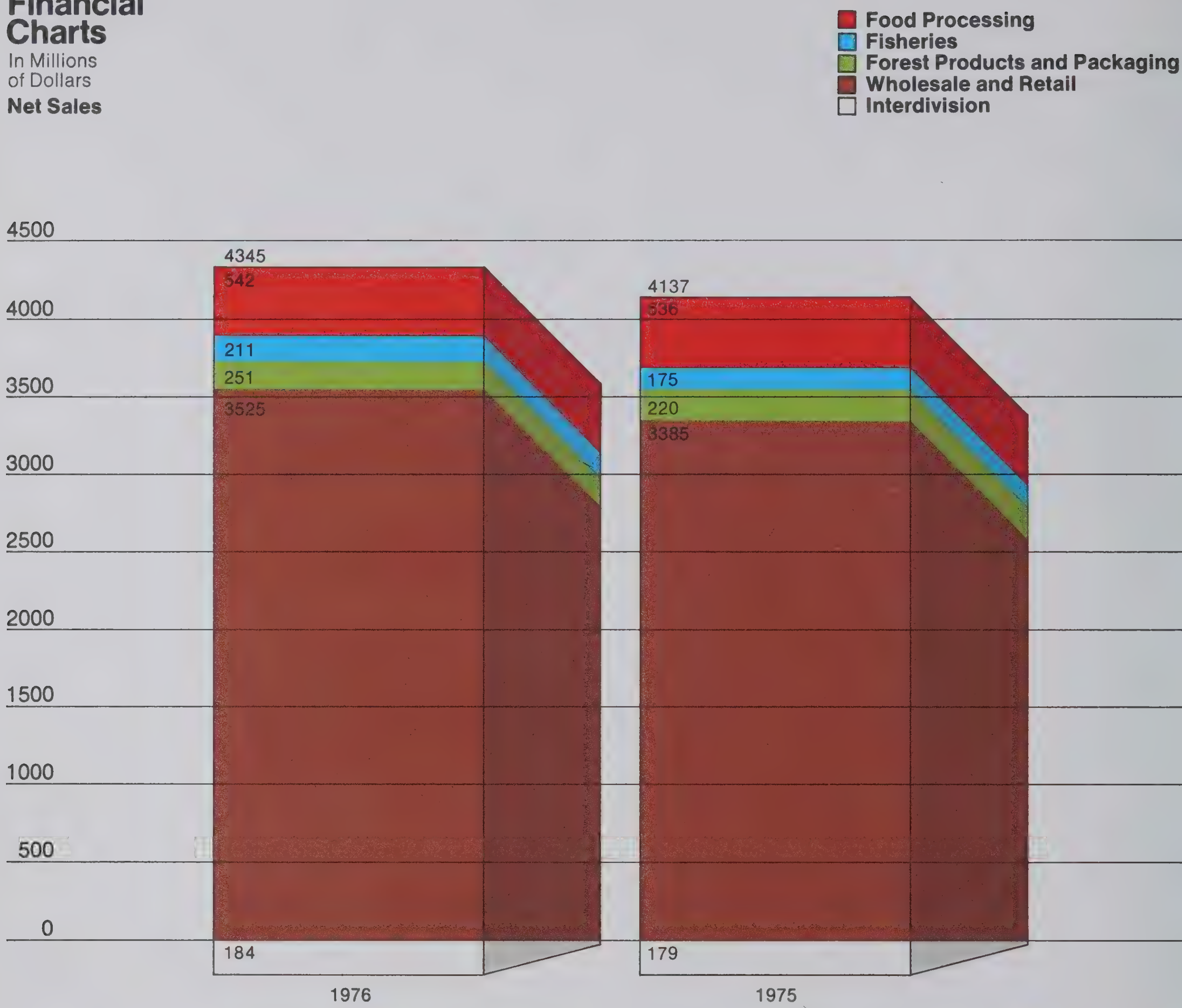
United States Operations

Wholesale and retail distribution of food, drug and other products in central United States.

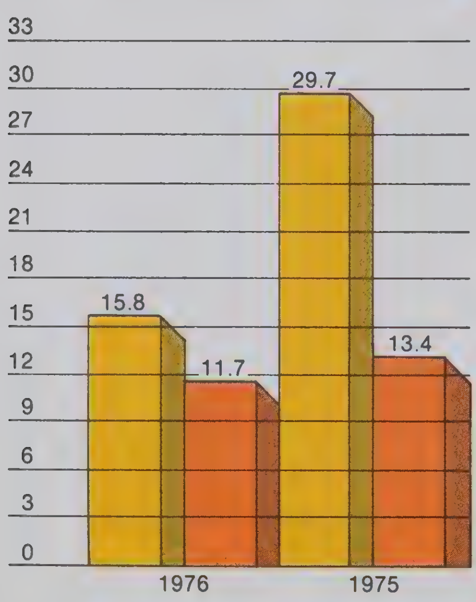
Financial Charts

In Millions of Dollars

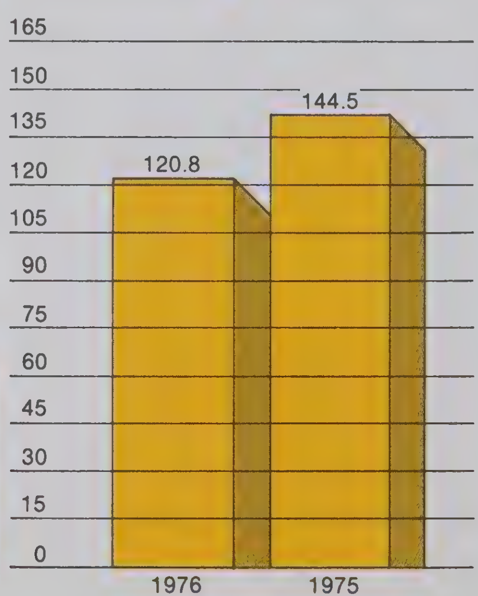
Net Sales



Income from Continuing Operations and Common Dividends



Working Capital



Long-Term Debt and Shareholders' Equity

Seven Year Review

George Weston Limited
(in millions of dollars)

	Including all subsidiaries			Excluding Loblaw Companies Limited			
	1976	1975	1974	1973	1972	1971	1970
Sales and Income							
Sales	**$4,344.8**	$4,136.9	$4,711.4	$1,377.4	$1,137.2	$1,036.6	$997.4
Depreciation	**45.9**	43.9	48.6	19.8	19.0	17.4	17.2
Interest	**45.3**	39.8	44.9	15.8	10.2	10.3	11.4
Taxes on Income	**22.1**	34.1	48.9	31.1	13.7	11.4	11.9
Income from Continuing Operations	**15.8**	29.7	41.3	34.6	18.6	15.1	14.4
per common share	**1.33**	2.59	3.65	3.06	1.61	1.29	1.23
Loss from Discontinued Operations	**24.1**	11.0	1.1	—	—	—	—
Extraordinary Items	**(6.4)**	(2.5)	1.9	—	11.3	1.7	1.2
Net Income (Loss)	**(14.8)**	16.2	42.1	34.6	29.9	16.8	15.6
per common share	**(1.44)**	1.37	3.73	3.06	2.65	1.45	1.35
Dividends							
common shares	**11.7**	13.4	13.1	10.9	9.6	9.2	8.7
preferred shares	**1.1**	1.1	1.1	1.2	1.0	1.0	.9
Financial Position							
Current Assets	**738.5**	711.8	783.8	345.2	257.9	234.8	218.6
Current Liabilities	**617.7**	567.3	602.7	226.1	155.9	135.1	119.4
Working Capital	**120.8**	144.5	181.1	119.1	102.0	99.7	99.2
Fixed Assets	**420.3**	483.4	458.2	213.2	182.7	181.0	183.4
Long-Term Debt	**232.7**	270.3	258.2	131.9	110.9	105.3	110.3
Shareholders' Equity	**206.3**	233.9	230.3	214.9	192.2	170.5	164.0
Total Assets	**$1,215.2**	$1,247.7	$1,294.3	$ 622.9	$ 498.0	$ 456.8	$442.4

Note: 1975 figures are restated to conform to the 1976 basis of reporting sales and expense figures for continuing operations. Loblaw Companies Limited was not consolidated with George Weston Limited prior to 1974.

Consolidated Financial Statements

Consolidated Statement of Income

George Weston Limited
Year ended December 31, 1976
(in thousands of dollars)

	1976	1975
Sales and other income		
Sales (note 3)	**$4,344,849**	$4,136,901
Investment income	**4,701**	5,132
	4,349,550	4,142,033
Operating expenses		
Cost of sales, selling and administrative expenses before the following items	**4,153,710**	3,932,018
Rentals on long-term leases net of deferred real estate income amortization	**59,324**	54,551
Depreciation	**45,919**	43,949
	4,258,953	4,030,518
Operating income	**90,597**	111,515
Interest on long-term debt	**20,535**	21,388
Other interest expense	**24,792**	18,429
	45,327	39,817
Income from continuing operations before income taxes and minority interest	**45,270**	71,698
Income taxes (note 2)	**22,122**	34,142
	23,148	37,556
Minority interest	**(7,348)**	(7,878)
Income from continuing operations	**15,800**	29,678
Loss from discontinued operations (note 3)	**(24,136)**	(10,955)
	(8,336)	18,723
Extraordinary items (note 4)	**(6,427)**	(2,490)
Net income (loss) for the year	**$ (14,763)**	$ 16,233
Per common share (note 13)		
Income from continuing operations	**$ 1.33**	$ 2.59
Loss from discontinued operations	**$ (2.19)**	$ (.99)
Extraordinary items	**$ (.58)**	$ (.23)
Net income (loss) for the year	**$ (1.44)**	$ 1.37

Consolidated Balance Sheet

George Weston Limited
(incorporated under the laws of Canada)
As at December 31, 1976
(in thousands of dollars)

Assets	**1976**	1975
Current assets		
Cash and short-term investments	**$ 44,253**	$ 35,425
Accounts receivable (note 5)	**149,710**	163,835
Receivable from sale of subsidiaries' shares and assets	**36,374**	
Properties held for sale, at the lower of cost and net realizable value	**37,126**	8,007
Inventories (note 6)	**456,356**	488,817
Prepaid expenses	**14,693**	15,704
	738,512	711,788
Investments (note 7)	**32,062**	27,838
Fixed assets (note 8)	**420,298**	483,370
Deferred items and intangibles		
Goodwill arising on consolidation of subsidiaries, less amortization	**16,611**	16,113
Deferred foreign exchange adjustment	**4,078**	5,057
Other deferred charges	**3,597**	3,515
	24,286	24,685
	$1,215,158	$1,247,681

Approved by the Board

W. Galen Weston, Director
W. Garfield Weston, Director

Liabilities	**1976**	1975
Current liabilities		
Bank advances and notes payable (note 9)	**$ 246,247**	$ 208,718
Demand loan from affiliated company		5,190
Accounts payable and accrued liabilities (note 10)	**315,852**	319,412
Taxes payable	**18,268**	17,634
Dividends payable	**1,653**	3,361
Mortgage payable on property held for sale	**20,955**	
Long-term debt payable within one year (note 11)	**14,705**	12,998
	617,680	567,313
Long-term debt (note 11)	**232,655**	270,276
Other liabilities (note 12)	**11,772**	6,494
Deferred income taxes	**35,943**	40,455
Deferred real estate income	**18,615**	19,799
	916,665	904,337
Minority interest in subsidiaries	**92,218**	109,442
Shareholders' Equity		
Capital stock (note 13)	**42,736**	42,717
Retained earnings	**163,539**	191,185
	206,275	233,902
	$1,215,158	$1,247,681

Consolidated Statement of Retained Earnings

George Weston Limited
Year ended December 31, 1976
(in thousands of dollars)

	1976	1975
Retained earnings at beginning of year	**$ 191,185**	$ 189,532
Net income (loss) for the year	**(14,763)**	16,233
	176,422	205,765
Dividends declared		
Preferred shares	**1,147**	1,136
Common shares	**11,736**	13,444
	12,883	14,580
Retained earnings at end of year (note 14)	**$ 163,539**	$ 191,185

Consolidated Statement of Changes in Financial Position

George Weston Limited
Year ended December 31, 1976
(in thousands of dollars)

	1976	1975
Working capital derived from		
Continuing operations (note 15a)	**$ 75,659**	$ 89,241
Increase in long-term debt and other liabilities	**30,697**	65,765
Proceeds from sale of fixed assets	**76,895**	23,933
Proceeds from sale of subsidiary companies (net of note receivable and subsidiaries' working capital)	**18,087**	
Proceeds from issue of preferred and common shares	**220**	2,045
Prior year's sale of certain properties in Hull, Quebec		790
	201,558	181,774
Working capital applied to		
Discontinued operations (note 15b)	**27,259**	11,759
Purchase of fixed assets	**100,239**	97,313
Reduction in long-term debt and other liabilities	**59,441**	53,703
Purchase of minority interest	**5,863**	29,343
Acquisition of subsidiary companies (net of working capital deficiency of $604)		2,948
Dividends	**12,883**	14,580
Dividends to minority shareholders in subsidiary companies	**4,118**	4,826
Extraordinary losses from store operations, leasehold terminations and related costs during close-down periods	**14,268**	5,501
Net increase (reduction) in investments	**307**	(2,283)
Other items	**823**	693
	225,201	218,383
Decrease in working capital	**23,643**	36,609
Working capital at beginning of year	**144,475**	181,084
Working capital at end of year	**$ 120,832**	$ 144,475

Notes to Consolidated Financial Statements

George Weston Limited
December 31, 1976

1. Summary of Significant Accounting Policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. The effective interest of George Weston Limited in the equity share capital of principal subsidiaries which are not substantially 100% owned by the George Weston group is as follows at December 31, 1976:

British Columbia Packers Limited	82%
Loblaw Companies Limited	87%
Kelly, Douglas & Company, Limited	71%
Loblaws Limited	87%
National Tea Co.	73%

(b) Amortization of goodwill arising on consolidation of subsidiaries

The Company follows the policy of amortizing, over periods not exceeding twenty years, the net difference between cost of the investments in subsidiaries and the estimated fair value of their net assets at the dates of acquisition. Total amortization for 1976 is $840,000 (1975 — $759,000) and is included in "Cost of sales, selling and administrative expenses".

(c) Inventories

Retail store inventories are stated at the lower of cost and net realizable value less normal profit margin. Other inventories are stated principally at the lower of cost and net realizable value.

(d) Deferred foreign exchange adjustment

All U.S. balances have been translated at a rate approximating the current rate. The net difference on the translation of the Company's equity in U.S. subsidiaries and the long-term debt payable in U.S. funds by its Canadian subsidiaries has been deferred until realized and is shown on the balance sheet as "Deferred foreign exchange adjustment".

(e) Fixed assets

Depreciation is recorded principally on a straight-line basis to amortize the cost of fixed assets over their estimated useful lives. The depreciation rates are substantially as follows:

Buildings	2½ to 5%
Automotive equipment	15 to 25%
Fishing vessels	6⅔ to 7½%
Equipment and fixtures	5 to 20%
Leasehold improvements	Lesser of useful life or term of lease

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in income, except that U.S. retail subsidiaries apply the gain or loss on normal dispositions of equipment and fixtures to accumulated depreciation.

(f) Deferred real estate income

The profits realized on the sale and leaseback of property have been deferred and are being amortized over various periods, mainly twenty-five years, according to the terms of the related leases.

(g) Discontinued operations

These operations have been accounted for separately from continuing operations as disclosed in note 3.

2. Income Taxes

(a) A summary of accounting losses, the tax effects of which have not been recorded in the accounts, is as follows at December 31, 1976:

	Latest year available for deduction	United States subsidiaries	Canadian subsidiaries
		(in thousands of dollars)	
Losses which may be carried forward on a tax filing basis:			
	1977	$ 13,536	$ 148
	1978	12,891	2,196
	1979	5,149	7,685
	1980	10,957	13,497
	1981		3,693
	1983	47,210	
		89,743	27,219
Expenses recorded for book purposes not yet claimed for tax purposes:			
Depreciation		4,855	6,173
Other		15,979	558
Accounting losses, the tax effects of which have not been recognized in the financial statements		$110,577	$33,950
The Company's effective interest therein		$ 83,460	$29,676

(b) United States subsidiaries have unused investment tax credits available to reduce future income taxes payable as follows at December 31, 1976:

	1977	$ 165
	1978	522
	1979	303
	1980	546
	1981	750
	1982	743
	1983	140
		$ 3,169
The Company's effective interest therein		$ 2,435

3. Disposals

In 1976, subsidiary companies of Loblaw Companies Limited discontinued their entire operations in the regions of Chicago-Illinois, Syracuse-New York and California with the result that retail operations in the United States have been curtailed. In order to remove the effect on operating results of these divisions, their operating results have been accounted for as discontinued operations. Other costs associated with the closures are disclosed as extraordinary items (note 4). The 1975 income statement has been restated to include comparative information for these operations.

Statement of Discontinued Operations

	1976	1975
	(in thousands of dollars)	
Sales	$709,219	$924,437
Cost of sales, selling and administrative expenses before the following items	718,416	918,924
Rentals on long-term leases	17,367	18,400
Depreciation	9,243	10,644
Interest on long-term debt	2,630	832
	747,656	948,800
Loss before the following	38,437	24,363
Income tax reductions	6,161	7,290
Minority interest	8,140	6,118
Loss from discontinued operations	$ 24,136	$ 10,955

Other subsidiaries and divisions which have had a lesser effect on operating results have been divested in 1976. In the aggregate, these subsidiaries and divisions contributed consolidated sales to the date of disposal of $107,000,000 (1975 — $122,000,000); their contributions to income from continuing operations to the date of disposal amounted to $1,323,000 (1975 — $1,124,000).

4. Extraordinary Items

	1976	1975
	(in thousands of dollars)	
Gain on sale of subsidiaries' shares	$ 18,633	
Income tax reductions realized on application of prior years' losses	1,912	$ 934
Prior year's sale of certain properties in Hull, Quebec		2,500
	20,545	3,434
Discontinued operations		
Store operations, leasehold terminations and related costs during close-down periods	(19,208)	(5,524)
Loss on disposal of fixed assets (net of income tax reduction of $2,164 in 1976)	(14,575)	(1,447)
	(33,783)	(6,971)
Minority interest	6,811	1,047
	$ (6,427)	$(2,490)

5. Accounts Receivable

	1976	1975
	(in thousands of dollars)	
Trade	$116,845	$110,709
Loans, advances and non-current receivables due within one year	1,423	6,136
Affiliated company		2,062
Other	31,442	44,928
	$149,710	$163,835

6. Inventories, by division

	1976			1975
	Raw materials and supplies	Finished goods	Total	Total
	(in thousands of dollars)			
Wholesale and retail	$ 2,819	$ 282,992	$ 285,811	$ 320,529
Food processing	31,856	26,709	58,565	66,875
Fisheries	11,624	62,498	74,122	52,116
Forest products	25,779	12,079	37,858	34,480
Packaging				14,817
	$ 72,078	$ 384,278	$ 456,356	$ 488,817

7. Investments, at cost

	1976	1975
	(in thousands of dollars)	
Secured loans and advances	$15,731	$14,787
Sundry investments	9,493	11,322
Non-current receivables	6,838	1,729
	$32,062	$27,838

Secured loans and advances include $4,770,000 (1975 — $4,655,000) owing by directors and officers of the Company and its subsidiaries arising out of the purchase of preferred shares of the Company through a trustee as part of the Company's incentive plan. These advances are secured by the shares purchased.

Sundry investments include 837,005 shares of M. Loeb, Limited at a cost of $5,049,000 with a quoted market value of $2,300,000 and an estimated book value of $4,300,000 at December 31, 1976. At the request of the Department of Consumer and Corporate Affairs of the Federal Government, the Company has agreed to dispose of the shares as soon as conveniently possible. The quoted market value is not necessarily indicative of their realizable value because of the number of shares held.

The remaining sundry investments do not have quoted market values and realizable value is estimated to approximate cost.

8. **Fixed Assets,** at cost

	1976	1975
	(in thousands of dollars)	
Land	$ 29,878	$ 32,192
Buildings	135,813	174,916
Equipment and fixtures	602,720	652,173
Leasehold improvements	79,652	90,055
	848,063	949,336
Accumulated depreciation	427,765	465,966
	$420,298	$483,370

9. Bank Advances and Notes Payable

Bank indebtedness of certain subsidiary companies of approximately $20,581,000 is secured by a pledge of accounts receivable and inventories of these companies.

10. Accounts Payable and Accrued Liabilities

	1976	1975
	(in thousands of dollars)	
Trade	$215,102	$242,007
Other	100,750	77,405
	$315,852	$319,412

11. Long-Term Debt

	Maturity	Payable within one year	Total 1976	Total 1975
		(in thousands of dollars)		
George Weston Limited				
Sinking Fund Debentures				
5¼% Series C	1982	$ 123	$ 6,798	$ 7,490
5½% Series D	1983	304	7,504	7,885
6¾% Series E	1986		5,250	5,813
6¾% Series F	1987	23	19,023	20,162
Bank loan bearing interest at 1% above the bank's prime rate	1980	1,000	19,000	20,000
Bank term debenture bearing interest at 1% above the bank's prime rate (replaced subsequent to year-end by a bank loan of U.S. $12,000,000 maturing in 1987 bearing interest at 1⅝% above London Interbank offered rate)	1987		12,000	12,750
Conditional purchase agreement bearing interest at the bank's prime rate				518
		1,450	69,575	74,618
British Columbia Packers Limited and subsidiaries				
First Mortgage Sinking Fund Bonds				
6½% Series B (U.S. $2,625,000)	1983	386	2,704	3,090
6½% Series C (U.S. $875,000)	1983	129	901	1,030
5½% Loan payable	1986	22	269	291
8% Note payable				206
Bank term loan bearing interest at 1% above the bank's prime rate	1982		10,000	
Other notes and mortgages payable	1977-1989	216	324	370
		753	14,198	4,987
Loblaw Companies Limited				
Bank loan bearing interest at 1¾% above the U.S. bank's prime rate (U.S. $15,000,000)	1983	$ 776	$15,464	
Bank loan bearing interest at 1% above the bank's prime rate secured by a pledge of 3,000,000 shares of National Tea Co.	1980	1,000	16,000	$17,000
8¼% Notes payable				1,950
		1,776	31,464	18,950
Loblaws Limited				
Bank loan bearing interest at 1% above the bank's prime rate	1978		15,000	15,000
Sinking Fund Debentures				
4¾% Series D				198
6% Series E	1977	1,920	1,920	2,198
5¾% Series F	1981		3,502	4,394
6⅜% Series G	1991		5,560	6,025
6¾% Series H	1991		5,849	6,324
Mortgages payable	1978-1994		260	1,865
		1,920	32,091	36,004
Glenmaple Overseas N.V.				
Bank loan bearing interest at 1¾% above London Interbank offered rate (U.S. $20,000,000)	1980		20,619	20,619
Kelly, Douglas & Company, Limited and subsidiaries				
Sinking Fund Debentures				
6% Series A	1977	1,085	1,085	1,176
8⅜% 1973 Series	1993		11,475	11,475
Bank loan bearing interest at 1% above the bank's prime rate	1979	500	5,250	5,750
Notes, mortgages and other long-term debt	1977-1991	218	1,272	1,590
		1,803	19,082	19,991
Loblaw Inc.				
Bank loan bearing interest at 120% of U.S. bank's prime rate plus ½% (U.S. $30,000,000) assumed by National Holdings Inc. in 1976				30,928
Notes, mortgages and other long-term debt (U.S. $109,000)	1977-1984	1	112	138
		1	112	31,066
National Holdings Inc.				
Bank loan bearing interest at 110% of the U.S. bank's prime rate plus ½% (U.S. $15,000,000)	1983		15,464	

	Maturity	Payable within one year	Total 1976	Total 1975
		(in thousands of dollars)		
National Tea Co. and subsidiaries				
5% Sinking Fund Debentures (U.S. $2,792,000)	1977	$ 2,878	$ 2,878	$ 3,076
3½% Subordinated Debentures (U.S. $2,313,000)	1980		2,385	2,385
Equipment purchase obligations bearing interest at ½% to ¾% above the U.S. bank's prime rate (U.S. $745,000)	1977-1978	643	768	1,808
Instalment mortgage notes (U.S. $2,429,000)	1977-1996	226	2,504	398
		3,747	8,535	7,667
Westcane Sugar Limited				
9⅜% Sinking Fund Debentures	1978	1,200	2,400	3,600
9⅜% First Mortgage Sinking Fund Bonds	1993		9,000	9,000
		1,200	11,400	12,600
Somerville Industries Limited				
6% Series B Sinking Fund First Mortgage Bonds				676
8½% Sinking Fund Debentures				7,800
				8,476
Other				
9½% Mortgage payable (U.S. $20,454,778)				21,087
Mortgage payable at the U.S. bank's prime rate plus 1% (U.S. $7,825,000)	1980		8,067	8,067
Notes, mortgages and other long-term debt with a weighted average interest rate of 9.1% (including U.S. $6,121,000)	1977-1999	2,055	16,753	19,142
		2,055	24,820	48,296
		$14,705	247,360	283,274
Less payable within one year			14,705	12,998
Long-term debt			$232,655	$270,276

At March 18, 1977 the Canadian bank's prime rate was 8¾%, the U.S. bank's prime rate was 6¼%, and the London Interbank offered rate was 5¼%.

Principal payable in the next five years on the long-term debt of the Company and its subsidiaries is:

1977	$14,705,000	1980	$48,311,000
1978	42,291,000	1981	15,209,000
1979	33,695,000		

12. Other Liabilities

	1976	1975
	(in thousands of dollars)	
Provision for future net obligations on closed operations	$ 5,361	$1,098
Deferred employee compensation	5,071	1,057
Provision for self insurance	1,340	1,340
Capitalized lease obligations		2,999
	$11,772	$6,494

13. Capital Stock

	Number of shares 1976	Number of shares 1975	Amount 1976	Amount 1975
			(in thousands of dollars)	
Preferred cumulative redeemable shares, par value $100 each, issuable in series				
Authorized	351,497	351,497		
Issued				
4½% First series, redeemable at a premium of 4%	91,540	92,082	$ 9,154	$ 9,208
6% Second series, redeemable at a premium of 5%	75,868	76,283	7,586	7,628
6% Third series, redeemable at par after October 1, 1980, convertible into 5 common shares for each preferred share and $3.75	2,000	2,000	200	200
6% Fourth series, redeemable at par after October 1, 1980, convertible into 8 common shares for each preferred share and $12.00	625	625	63	63
6% Fifth series, redeemable at par after September 1, 1982, convertible into 5 common shares for each preferred share and $11.25	20,000	20,000	2,000	2,000
6% Seventh series, redeemable at par after February 19, 1983, convertible into the number of common shares obtained by dividing the aggregate par value of such preferred shares by $21.00	2,500	3,550	250	355
6% Eighth series, redeemable at par after January 27, 1985, convertible into the number of common shares obtained by dividing the aggregate par value of such preferred shares by $22.50	20,375	20,375	2,038	2,038
6% Ninth series, redeemable at par after December 3, 1986, convertible into 100 common shares for every 11 preferred shares	2,200		220	
	215,108	214,915	21,511	21,492
Common shares, without par value				
Authorized	16,950,000	16,950,000		
Issued	11,019,357	11,019,357	21,225	21,225
			$42,736	$42,717

The Company has reserved 237,460 common shares for the potential conversion of Third through Ninth series preferred shares. The exercise of the conversion privileges of preferred shares would not have a material effect on earnings per share.

During the year 2,007 preferred shares (1975 — 908 shares) were purchased for cancellation at a cost of $149,000 (1975 — $49,000).

14. Retained Earnings

The Trust Indentures securing the Company's sinking fund debentures contain provisions whereby certain tests must be met before the declaration of dividends. At December 31, 1976 a substantial portion of consolidated retained earnings is available for dividends under these tests. There are also dividend restrictions under Anti-Inflation legislation.

15. Changes in Financial Position

	1976	1975
	(in thousands of dollars)	
(a) Working capital derived from continuing operations		
Income from continuing operations	$15,800	$29,678
Add (deduct)		
Depreciation	45,919	43,949
Deferred income taxes	6,537	13,436
Minority interest	7,348	7,878
Other	55	(5,700)
	$75,659	$89,241
(b) Working capital applied to discontinued operations		
Loss from discontinued operations	$24,136	$10,955
Add (deduct)		
Depreciation	(9,243)	(10,644)
Deferred income taxes	4,857	5,724
Minority interest	8,140	6,118
Other	(631)	(394)
	$27,259	$11,759

16. Commitments and Contingent Liabilities

(a) The Company and its subsidiaries have obligations under long-term leases for retail outlets, warehousing facilities, equipment and store fixtures. The aggregate minimum rentals (exclusive of additional rents based on sales, realty taxes and other charges) under leases with an initial term greater than five years are as follows for each of the periods shown:

	(in thousands of dollars)
For the year	
1977	$ 62,690
1978	61,070
1979	58,465
1980	55,628
1981	52,509
For the five years ending	
1986	198,361
1991	134,410
1996	78,484
2001	26,774
Thereafter to 2023	1,006
	$729,397

In addition to the above, a subsidiary assigned to the Great Atlantic & Pacific Tea Co. leases having a gross rental obligation of approximately $24,000,000. The subsidiary is contingently liable for these amounts in the event of default.

The Company and its U.S. retail subsidiaries have subleases to third parties providing expected income of approximately $61,000,000 which has been netted above.

(b) Endorsements and guarantees amount to $23,776,000.

(c) The present value of the unfunded past service pension liability is estimated to be approximately $35,327,000 at December 31, 1976 and is being amortized over varying periods not exceeding seventeen years.

17. Anti-Inflation Legislation

The Company and its Canadian subsidiaries are subject to Anti-Inflation legislation of the Federal Government from October 14, 1975. This legislation provides for restraint with respect to prices, profit margins, employee compensation and dividends.

18. Other Information

(a) The aggregate direct remuneration paid to directors and officers is as follows:

Number of directors	11
Number of officers	18 (including 1 former officer)
Number of officers who are also directors	8

	Directors' fees	Other remuneration
Paid by the Company	Nil	$771,328
Paid by subsidiaries	$500	614,370

(b) Sales by division

	1976	1975
	(in millions of dollars)	
Wholesale and retail	$3,525.0	$3,384.6
Food processing	542.0	536.5
Fisheries	210.8	175.0
Forest products and packaging	251.2	219.7
Interdivision	(184.2)	(178.9)
	$4,344.8	$4,136.9

(c) The Companies Act of British Columbia
These financial statements comply with the disclosure requirements of the act of incorporation (the Canada Corporations Act) and the securities legislation of certain provinces in Canada, but do not purport to comply with all disclosure requirements unique to the Companies Act of British Columbia.

Auditors' Report

To the Shareholders of
George Weston Limited

We have examined the consolidated balance sheet of George Weston Limited as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of George Weston Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.

Chartered Accountants

Toronto, Canada
March 18, 1977

Directors

W. Galen Weston
Chairman of the Board
and Managing Director
George Weston Limited,
Chairman and
Chief Executive Officer
Loblaw Companies Limited

W. Garfield Weston
Vice Chairman of the Board
and President
George Weston Limited

Richard J. Currie
Senior Vice President
George Weston Limited,
President and Chief
Operating Officer
Loblaw Companies Limited

David A. Nichol
Senior Vice President
George Weston Limited,
President
Loblaws Limited

Mark Hoffman
Senior Vice President
George Weston Limited,
Vice President
Loblaw Companies Limited

George C. Metcalf
Vice President
George Weston Limited,
Vice Chairman of the Board
Loblaw Companies Limited

S. Simon Reisman
Chairman
Reisman & Grandy Ltd.

Frank A. Riddell
Senior Vice President, Food Processing
George Weston Limited,
Chairman of the Board
Weston Bakeries Limited

James A. Watson
Vice President
George Weston Limited,
Chairman of the Board
National Tea Co.

Richard I. Nelson
Chairman and Chief Executive Officer
British Columbia Packers Limited

Garry H. Weston
Chairman
Associated British Foods Limited

Officers

W. Galen Weston
Chairman of the Board
and Managing Director

W. Garfield Weston
Vice Chairman of the Board
and President

Richard J. Currie
Senior Vice President

David A. Nichol
Senior Vice President

Mark Hoffman
Senior Vice President

Frank A. Riddell
Senior Vice President,
Food Processing

George C. Metcalf
Vice President

James A. Watson
Vice President

William A. Sloan
Vice President, Finance

Kenneth H. Smith
Vice President
and Secretary

Ian M. Young
Treasurer

Kenneth L. Harlock
Controller

Ivan R. Franklin
Corporate Tax Officer

Terrence H. Wardrop
Assistant Controller

John W. Richardson
Assistant Treasurer

Charlotte Welch
Assistant Secretary

Stewart E. Green
Assistant Secretary

Executive Offices
22 St. Clair Avenue East
Toronto, Ontario

Stock Listings
Toronto, Montreal and Vancouver
Stock Exchanges

Transfer Agents
National Trust Company, Limited,
Toronto, Montreal, Winnipeg,
Edmonton and Vancouver;
The Detroit Bank and Trust Company,
Detroit, Michigan, U.S.A.

General Counsel
Smith, Lyons, Torrance, Stevenson and
Mayer

Auditors
Thorne Riddell & Co.
Toronto, Ontario

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